SEE California

SUSTAINABLE ENVIRONMENT &
ECONOMY *for* CALIFORNIA

January 31, 2006

Dr. Alan Lloyd, Chair
California Environmental Protection Agency
1001 I Street
Sacramento, CA 95812-2815

Dear Dr. Lloyd:

The Sustainable Environment and Economy for California (SEE California) Coalition offers comments related to the Climate Action Team Draft Report to Governor Schwarzenegger regarding recommended approaches to achieve the goals outlined in Executive Order S-3-05, which sets greenhouse gas emissions reduction targets for 2010, 2020 and 2050.

SEE California is an IRS-qualified nonprofit organization, representing a broad spectrum of California's industry and business community including the California Chamber of Commerce, California Farm Bureau Federation, Rubber Manufacturers Association, California Nevada Cement Promotion Council, Western Growers Association, California Forestry Association, California Manufacturers and Technology Association, and the Engine Manufacturers Association, among others.

SEE California continues to support Governor Schwarzenegger's goal to reduce greenhouse gas emissions in California. With this in mind, our coalition strongly believes that any policy recommendations made to achieve the goals set forth in the Governor's executive order must consider the following principles:

I. California is the national leader in both energy efficiency and the use of alternative and renewable fuels. Any new greenhouse gas policies should provide flexibility and incentives that will build on this leadership role and place California at the forefront as a technology provider for helping the global community address climate change.

II. Addressing climate change is a global issue and the burden should not fall disproportionably on California businesses or consumers.

III. Any new greenhouse gas policies must provide tangible solutions that will be effective for the long-term and significantly mitigate impacts of climate change on California.

IV. The true economic impacts and individual costs of climate change policies should be quantified, known and shared by all Californians.

V. SEE California opposes greenhouse gas policies that are based on new taxes, fees or rationing.

VI. New greenhouse gas policies must benefit California's citizens, its economy and ensure that California remains competitive in U.S. and global markets.

VII. Greenhouse gas policies must not endanger the reliability of our energy supply system or increase our dependence on foreign resources.

Regarding the Climate Action Team (CAT) draft report, SEE California offers the following comments. In addition to these comments, many of SEE California's coalition members also have submitted individual comments regarding their specific industry's analysis of the draft report.

General Comments

SEE California agrees that protecting California from the effects of climate change is a laudable goal. Our coalition believes that efforts to reduce emissions will only succeed if all of the key stakeholders work together throughout the process to ensure that all viewpoints and impacts are thoroughly analyzed and that the policies pursued do not harm California's economy. It is the strength of California's economy that fuels our state's ability to be a climate leader. We call on the CAT to support their recommendations with evidence of the degree to which the proposed greenhouse gas emission reductions will protect California against the harmful effects of climate change.

For many years, SEE California members have been involved in successful, voluntary actions to reduce greenhouse gas emissions from their operations and facilities. Many of these members already provide the innovation and technology that can help the state in finding solutions to reach its greenhouse gas reduction goals. Moreover, many of these same members voluntarily register their emissions with the California Climate Action Registry.

Further, we believe it is essential that there is a continuing dialogue with the affected stakeholders. We will continue to analyze the draft report and economic analysis and will provide additional comments and participate actively in the process as this effort continues. However, once again, we must reiterate our belief that the comment period was too brief. The CAT draft report was issued on December 8, 2005 and is the culmination of many months of preparation by agencies using considerable state resources. Stakeholders were given just more than one month (35 to 36 working days) to examine the report and prepare their comments.

Once again we cannot overstate the need for more time to give stakeholders sufficient time to provide thoughtful review and comments.

Taxes, Fees and Rationing

We oppose greenhouse gas policies that are based on new taxes, fees, or rationing.

Regarding the public goods charge for transportation, our coalition again highlights our opposition to any new tax on vehicle fuel in California. This additional charge on fuel would give California the distinction of the highest gas tax in the nation, providing a disincentive for businesses that rely on gasoline to create or locate jobs in our state. By increasing costs on employers that rely heavily on fuel, specifically agriculture, manufacturing and retail enterprises, consumer prices also may increase because of this new burden. There also are no accountability methods apparent in the report with respect to how the tax revenues would be applied.

In addition, by calling this tax a "fee," it appears the CAT proposal is intended to avoid the constitutional required vote and the associated public debate needed to approve tax increases.

Mandatory Reporting/Cap and Trade

According to the CAT report, the intent of mandatory emissions reporting is to collect greenhouse gas emissions data, starting with the data from the latest sources of emissions as an initial step towards implementing a cap-and-trade program.

A sector-based emissions cap would capture 30 percent or less of the state's climate change emissions by focusing on five key industries: electric power (including emission from imported electricity); oil refining; oil and gas extractions; landfills; and cement production. California's farmers, who also rely heavily on fuel for production and goods movement, cannot pass these increased fuel costs to consumers because the price paid to farmers for most food commodities is set by foreign and out-of-state producers with lower operating costs.

We have significant concerns about the impacts that a sector-based cap-and-trade program would have on our economy and our ability to maintain and create new jobs.

One example that demonstrates the complexity of a seemingly simple cap-and-trade approach is found in the cement industry that in 2001 adopted a voluntary carbon dioxide emission reduction program. In creating this policy, a cap or absolute reduction of emissions was determined to be ineffective because it would cap cement production. As an alternative, the industry adopted an intensity, or per unit, reduction goal that allows for technological innovation while giving the industry the ability to meet California's increasing demand for cement products.

SEE California encourages further cost analysis of this facet of the draft CAT report. We support voluntary reporting programs or audits such as the Climate Action Registry, and prefer these to be nationally or internationally based.

Leakage

As pointed out in the CAT report, greenhouse gas policies could lead to "leakage," or the movement of businesses and jobs to other states and nations as a way to avoid new emissions restrictions or increases in prices of such things as electricity and gasoline. Leakage would have dual negative impacts, since the loss of jobs and businesses would hurt California's economy and would result only in moving, not reducing, greenhouse gas emissions or other environmental impacts.

As an example, California's forest products industry points out that a CAT proposal to take additional forest land out of production and set it aside for aged trees will simply lower wood product production in California and drive it to states or nations with less restrictive greenhouse gas emissions and environmental standards. The leakage created by such a program would result only in lost jobs, not real reductions in greenhouse gas emissions or overall environmental benefit.

SEE California encourages the CAT to work with the business community to ensure that any new reduction programs provide tangible results and do not simply lead to leakage of businesses to less restrictive jurisdictions.

Energy Efficiency

Energy efficiency offers the more promising area of opportunity for reducing greenhouse gas emissions on a global scale. As the national leader in energy efficiency, California should adopt policies that promote the export of these technologies and programs.

As noted, individual SEE California coalition member companies already have taken steps to voluntarily reduce greenhouse gas emissions through energy efficiency programs, for example:

- A key part of the cement industry's voluntary climate change program is a focus on enhancing the energy efficiency of the manufacturing process. The industry has reduced the amount of energy used to produce a ton of cement by over 33 percent since the mid 1970s. Moreover, the industry currently is working with EPA under the Energy Star Program to prepare a tool that will allow cement plants across the United States to compare their performance.

- California's electricity sector is among the cleanest in the country. Its carbon intensity, as measured in carbon dioxide emissions per megawatt-hour produced, is roughly 40 percent less than the national average (including both in-state and imported power). This achievement is due to a diversified portfolio of fuels, including renewables, large hydroelectric, natural gas, nuclear, and coal – giving California the world's most diverse electricity generation system.

- The Engine Manufacturers Association states that the free market already exerts great pressure on engine and vehicle manufacturers to produce the most efficient engines and vehicles possible because increased fuel economy and more efficient engines provide direct cost savings to customers.

SEE California encourages the CAT to consider programs that allow businesses in the state to continue to pursue effective, voluntary programs to reduce emissions and maintain its role as a national leader in both energy efficiency and the use of alternative and renewable fuels.

Economic Analysis

Once again we must qualify our comments by saying that had we more time our comments would be more detailed and incisive. The Draft Economic Assessment was released in its first draft on January 5, 2006, while a second draft was release on January 12, 2006, with supporting data released on January 19, 2006. We were given just 13 business days to review and comment on the economic assessment.

Our initial impression is that the document is contradictory in its supposition and conclusion, and that the data included in the document supports neither the supposition nor the conclusion. The economic assessment document begins in Section 8 by stating that "the results of the [economic analysis] show that the overall impacts of climate change emission reductions strategies are expected to be positive." Furthermore, the introduction goes on to state that, "Although this analysis needs refinement, we expect that the fundamental conclusion - that the suite of strategies discussed in this report has a net positive impact on California's economy - will stand." Unfortunately this is not the conclusion stated in Section 8.4. The summary concludes, "Based on this preliminary analysis, it appears that the climate change emission reduction targets can be met without adversely affecting the California economy." <u>These statements are inconsistent</u>. The conclusion seems to disprove that any negative effects will result from adoption of the strategies, which negates the earlier affirmative claims of actual benefits. It is difficult to find confidence in an analysis that demonstrates an inherent doubt about its own assertions.

Moreover, data presented in the fist draft do not support the conclusions made concerning the economic benefits. The data found in Tables 8-1 and 8-2 of the first draft shows net income decreasing by $1 billion and $2 billion respectively. While both tables were revised in the second draft released January 12, no supporting documentation for the revisions was presented.

One manner in which the analysis can be strengthened would be to provide a better description of the various alleged benefits. The economic analysis indicates that implementation of the strategies found within the CAT report will create more jobs; however, there is no indication of what type of jobs will be created or what type and number of jobs will be displaced. We believe that Economic Assessment would be more useful if it answered several rudimentary questions such as: What type of jobs will be created and displaced by implementation of the greenhouse gas emission reduction strategies? In what industries are these jobs likely to be created? What will the pay scale be for these jobs? Is there presently any training programs or vocational educational programs that will assist students in preparing for these jobs?

It is difficult to gauge the credibility of the claims made in the Economic Assessment without the answers to these rather basic questions.

Adaptive Strategies

The CAT Report and appendices provide well over 1,000 pages of extensive descriptions of the problem, the process that leads to the report, and the strategies that will lead to the eventual reduction in greenhouse gas emissions. The report details extensively various climate change scenarios ranging from taking no action in addressing greenhouse gas emissions to total implementation of the various emission reduction strategies.

Unfortunately, the report is devoid of any adaptive strategies necessary to deal with the short and intermediate term effects of climate change. This is a significant omission in such a comprehensive report.

Investment Strategy for State Funded Programs

Investment strategies for public retirement and other funds should be based solely upon ensuring the best possible return on investment for its members. Our concerns relate to the liability incurred by the State General Fund, should environmentally based investment strategies fail to meet the required return on investment.

Conclusion

As we indicated to the CAT in December 2005, in Executive Order S-2-03, Governor Schwarzenegger stated that, "the increased costs associated with California's regulatory environment have diminished competition in the national and global marketplaces for the State's goods and services." We believe that any policies implemented pursuant to recommendations made in the CAT Report should be consistent with the Governor's statements in the E.O. S-2-03 and should, "minimize the economic impact to the regulated communities."

Based on the reports, proposals and data presented to date, we are concerned that the CAT's direction is inconsistent with the Governor's stated goals. However, we are hopeful that we will be able to work with the CAT to develop strategies that reduce greenhouse gas emissions in California and allow the state's economy to continue to thrive and create jobs.

We look forward to further discussion of the issues our members have raised.

Sincerely,

Jeanne Cain

Jeanne Cain
Chair
SEE California Coalition

Senior Vice President
California Chamber of Commerce

cc: Susan Kennedy
Richard Costigan
Fred Aguiar
Dan Dunmoyer
Dan Skopec
Dennis Albiani